UNITED
NATIONS

TD

United Nations
Conference
on Trade and
Development

Distr.
GENERAL

TD/B/COM.3/6
TD/B/COM.3/EM.2/3
26 September 1997

Original : ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business
Facilitation and Development
Second session
Geneva, 1 December 1997

REPORT OF THE EXPERT MEETING ON GOVERNMENT AND PRIVATE SECTOR ROLES AND INTERACTIONS IN SME DEVELOPMENT

Held at the Palais des Nations, Geneva,
from 23 to 25 July 1997

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GE.97-51652

I. RECOMMENDATIONS ADOPTED BY THE EXPERT MEETING

Preamble

1. The Expert Meeting stressed the important contribution SMEs can make to the effective functioning of the market economy and to employment, growth and development. In the light of their deliberations and exchange of experiences, the experts made the following recommendations to the Commission on Enterprise, Business Facilitation and Development.

A. Channels of government-private sector dialogue

2. Since dialogue is an interactive process, not an event, it must be structured, relevant, transparent, and representative, and it should have an effective influence on both policy formulation and implementation; effective dialogue requires independent and responsible partners; and effective dialogue must occur at all appropriate levels: federal, regional, local, sectoral, etc.

3. Recommendations to Governments:

(i) To advance the dialogue between government and the SME sector, the experts recommended that all levels of government - federal or central, state or provincial, and local, municipal or regional - participate fully;

(ii) In recognition of the different requirements and interests of large and small business, the experts recommended that SMEs should be encouraged, and even assisted by Governments, to organize their own representation in the dialogue, having regard for and reflecting the full range of diversity among them;

(iii) Governments should develop effective mechanisms for consensus-building between all the relevant actors (Governments, implementing agencies, representatives of SMES);

(iv) Governments should help to strengthen the capacity of representative bodies, without compromising their independence, by providing government funding for specific services such as research on behalf of their members, including research by academics on SME topics and training;

(v) Where SME organizations are fragmented, Governments should help them to strengthen their capacity for effective representation by encouraging the creation of an umbrella organization or committee to harmonize their voices in dialogue with government. Where there is a problem of under-representation of SME interests in business representative bodies which encompass members of all sizes, Governments should encourage the creation of a specific SME committee within the wider organization;

(vi) Governments (in particular local governments) should collect information regarding the SMEs within their territories, including their contribution to the economy and job creation.

B. Policy coherence

Recommendations to Governments

4. Based on the assessment of lessons learned from past experience, the experts recommended that, in the interest of achieving stability and coherence in macro and micro policies for SME promotion, Governments should identify their appropriate role and activities to better support SMEs; they should adopt the principle of subsidiarity, that is identify who can do what best and at what level; in this context it might be necessary to develop the necessary legislation for non-state service providers. Governments should undertake needs assessment and develop tools to evaluate impacts of policies and programmes (including support mechanisms);

5. The experts were of the opinion that policy coherence must occur in at least five areas:

(i) There must be coherence between macroeconomic conditions and micro policies favouring SMEs, because macroeconomic instability not only affects SMEs more but can also destroy whatever impact SME programmes could have;

(ii) Policy coherence is needed among all public and private sector bodies involved in SME support services in the country because fragmented policies and programmes waste scarce resources;

(iii) There must be policy coherence among all levels of government, since what is achieved at the federal level might be undermined at a lower level and vice versa;

(iv) There must be stability, clarity and coherence in implementation;

(v) There must be coherence between policies to promote internal growth of SMEs while respecting external obligations and commitments such as WTO agreements.

6. SME issues should be integrated into overall industrial policy. However, Governments should also have a national strategy to redress biases against SMEs by addressing their specific needs such as access to a range of business services which large firms commonly have internally.

C. SME support measures and agencies

Recommendations to Governments

7. The experts recommended that support measures and agencies, whether provided or organized by the Government or to private sector, should be needs-based or demand-driven. They further recommended the use of surveys to identify the needs of target groups and to evaluate the impact of these measures, programmes and agencies.

8. The experts regarded it as critical that Governments adopt the principle of subsidiarity in designing efficient support measures. First, the provision of support measures should be the responsibility of all players, Governments, business associations, and NGOs. A coordination agency should be created which is independent, business-oriented, run by qualified and adequately remunerated staff, and sustainable. Second, support measures should be decentralized as much as possible.

9. The experts recommended that Governments facilitate networking among service providers to contribute to the efficiency and effectiveness of the support infrastructure at the federal, regional and local level and provide government assistance for research on marketing, trade promotion activities and technology diffusion programmes.

D. Recommendations to UNCTAD (all areas)

10. The experts recommended that the importance of SME development be put on the global agenda and that UNCTAD should introduce the topic of SMEs in the General Assembly so that all Governments appreciate the contribution of SMEs and discuss ways to promote them.

11. The experts recommended that UNCTAD review and report on case studies on effective mechanisms to promote dialogue, with particular reference to mechanisms for achieving balance, transparency, integrity of representation, effective impact on policy formulation and implementation.

12. The experts recommended that UNCTAD should undertake a survey of tools available to assess needs and to evaluate impacts of policies and support programmes and disseminate them among interested countries.

13. The experts recommended that UNCTAD review the types of policies developed at the federal and local level in different countries and prepare a report. It should also identify what new policies could be developed to support SMEs in more efficient ways (for example, new methods to facilitate better access to credit), bearing in mind that these policies have to be consistent with international obligations, i.e. WTO agreements. UNCTAD should consider designing "pilot" projects in strategic areas to help disseminate (especially to LDCs) successful experiences which can be replicated.

14. UNCTAD should review the coherence between trade and micro policies and its impact on SMEs. In particular, it should identify whether the increased failure rates of SMEs result from a lack of competitive advantage or from a lack of adequate business support mechanisms (whether public or private) and/or underdevelopment of business service infrastructure.

15. Given the importance of increasing the competitiveness of SMEs, the experts recommended that UNCTAD extend its operational programmes, such as TRAINFORTRADE, Trade Points, and EMPRETEC 21, to more countries and enhance relevant transit programmes.

16. UNCTAD should promote an exchange of views among practising experts in business support services, i.e., on how to facilitate more effective SME marketing activities by increasing information about trading opportunities and national trade regulations via trade fairs, trade exhibitions, trade data bases, etc.

17. UNCTAD should study how best to make information accessible to SMEs about the availability of support services and how support agencies can better market their services. This study should review mechanisms for financing of support agencies and support services, including their sustainability, cost-recovery and pricing issues and the role of price in responding to SME needs.

18. UNCTAD should search for synergy with other international organizations, taking into account their work on SMEs.

II. CHAIRMAN'S SUMMARY OF EXPERTS' DISCUSSIONS

1. The Expert Meeting on Government and Private Sector Roles and Interactions in SME Development focused on four main topics: (i) channels for government/private-sector dialogue; (ii) policy coherence for SME development; (iii) SME support mechanisms and agencies; and (iv) the role of professional associations in government/private-sector dialogue and SME support.

(i) Channels for government/private-sector dialogue

2. Globalization and liberalisation, facilitated by rapid progress in information and communications technologies, are dominant trends in the world economy. Their economic impact radically changes the relationship between the government and the private sector. As a result, economies have become more market-oriented and enterprises play an increasingly important role in the development process. Conversely, the role of government is progressively shifting from direct economic intervention towards the creation of an enabling environment for the establishment and expansion of private enterprises. Globalization has meant that competitiveness is increasingly based not only on price but also on a culture of innovation and the capacity of a firm to change. Many of these changes are made possible through government/private-sector dialogue to promote enterprise development. Since dialogue is an interactive process, not an event, it must be structured, relevant, transparent and representative, and it should influence both policy formulation and implementation; effective dialogue requires independent and responsible partners, and it must occur at all appropriate levels of government. It is important that the mechanisms for government/private-sector dialogue facilitate this interactive process.

3. In several countries, such as Mauritius and Nepal, formalised mechanisms for public/private-sector dialogue have been in existence for some time and have proved their usefulness. Many countries are in the process of establishing various mechanisms for public/private-sector dialogue, including consultative and deliberative councils at the national, sectoral and local levels. In Mauritius, a three-tier system has evolved over time which is based on sectoral associations, core national bodies, including chambers of commerce and professional associations, and a Joint Economic Council at the apex acting as a spokesperson of the private sector in the highest policy-making bodies. Hungary is in the process of creating an Entrepreneurship Development Council on which representatives from government ministries, chambers of commerce, business associations and individual experts will serve with a view to advising the Government on creating enabling commercial and legal frameworks for SME

development. In Romania, the consultative councils will also invite foreign investors to participate. Country experience shows, however, that the habits and practices of dialogue are still evolving and that best practice in this domain is still to be assessed.

4. In defining dialogue, a distinction was made between consultation, which may occur several times a year at the national level, and dialogue, which involves a greater flow of communication and understanding within a continued relationship. There was general agreement among experts that dialogue for SME development at the local level is vital because it is at this level that dialogue can be an interactive result-oriented process. As experience in Australia, the Russian Federation and other countries has demonstrated, weak or even non-existent dialogue at the local level undermines results achieved at the central level. The success of the Emilia Romagna region in Italy demonstrates the correlation of SME development with local and regional development. Decentralised dialogue allows for the local development of both human and institutional capacities to carry out a focused and result-oriented policy dialogue. Regionally or locally driven government/private-sector interactions do, however, require a national policy framework for enterprise development to guide and direct local and regional initiatives.

5. The public and the private sectors need to work in partnership, cooperate and not see each other as adversaries. This requires that their relations be based on trust and conducted with professionalism. Experiences in Mauritius, the Russian Federation and Croatia underline the need for an efficient, competent and impartial bureaucracy which is transparent in its interaction with the business sector and a private sector which is prepared to discuss policy issues and strategies for enterprise development and which is not primarily seeking concessions from government. Dialogue should result in practical public policy if it is to command the trust of the private sector.

6. The possible conflicts of interest between large firms and SMEs and the tendency for government dialogue with the business sector to be dominated by the interests of large firms represent a common problem. Factors contributing to this bias are the larger firms' greater economic and political influence (which is in part a consequence of their larger individual contribution to corporate taxes) and the greater influence they command in umbrella organisations such as chambers of commerce. A dialogue which is dominated by the interests of larger firms risks creating policies and strategies which are biased against SMEs. Based on such experiences, it is sometimes advisable for SMEs to form their own genuine representative associations to strengthen their bargaining power. The potential advantages of SME groupings based on specific interest, economic sector

or geographical location were highlighted by the experts. In some countries SMEs have been able to establish effective subcommittees within umbrella organisations. The advantage of remaining in an umbrella organisation is the ability to harmonise opinions, take joint action and avoid presenting the Government with conflicting views from the business community. The Government should play a role as facilitator in encouraging the formation of SME representative associations, as well as research relating to SMEs interests. The role of government in the support of independent research in the area of SME development was considered by experts as not only important for creating a valuable interlocutor for government/private-sector dialogue, but also as a means to stimulate academic recognition of SMEs as integral and major actors in the economy and their interest in undertaking research which can help to inform government policies in this area.

7. To further facilitate dialogue between the public and private sector, it was considered necessary that there be balanced representation of all sectors of the business community, including SMEs. The issue of the representativeness of SME associations, given their heterogeneity, was raised. Experts again stressed the need for SMEs to form associations according to their sector or area of production and interest in order to maintain their integrity vis-à-vis their constituencies and ensure the adequate representation of all types of SMEs. Governments were encouraged to develop mechanisms to preserve the integrity and balance of SME representative bodies in national councils and other consultative fora. Experts drew attention to the value of undertaking surveys of firms as a means of ensuring that the views of SMEs are adequately identified.

8. Other critical factors needed for effective dialogue include: ensuring the promotion of an entrepreneurial culture in developing countries in general; addressing ideological resistance to the transition from a command economy to a market economy; and putting in place measures which foster the integration of informal sector enterprises into the formal sector of the economy. This integration is of particular importance in developing countries, and especially in LDCs, where the majority of SMEs operate in the informal sector. A large number of enterprises are, as a consequence, excluded from dialogue with the Government, thus weakening the design of effective SME development policies and strategies.

9. Governments were encouraged not to neglect their role in the promotion of social partnerships, for example by fostering mechanisms for networking and the development of business associations. Actively seeking to promote social partnerships assists in lowering the costs of production through economies of

scale and scope which SMEs are otherwise less able to achieve. Partnerships also contribute to the process of dialogue and cooperation among all actors in the economy.

10. Methods for the periodic evaluation of the effectiveness of the various channels for dialogue still need to be devised in the majority of countries. Experts encouraged Governments to address this problem. It was stressed that dialogue should be proactive and continuous before and during the implementation of strategies and programmes. Continuous dialogue during the implementation period is very important for the effectiveness of SME development strategies.

(ii) Policy coherence for SME development

11. While regular and effective government/private-sector dialogue is essential for the creation of a coherent policy framework for enterprise development, sound and effective dialogue must at the same time be based on a coherent national policy framework on SMEs. Policy coherence implies not only the design of coherent policies but also clarity and consistency in their implementation, as well as an adequate response from the private sector. Furthermore, policy coherence implies a comprehensive and integrated approach involving all actors, including NGOs and entrepreneurs themselves, in implementation.

12. Experts identified five main areas of potential policy incoherence: between macroeconomic policy and microeconomic policy; between public and private sector bodies involved in SME support services; between the federal and local levels; between implementation and design; and between internal and external policies.

13. Stable and sound macroeconomic conditions are essential for the success of SME development. Even the best strategies for SME development will be undermined if macroeconomic conditions are not conducive to the development of business. Experience shows that macroeconomic instability can be particularly detrimental to SMEs because of their limited ability to adjust to abrupt changes in the business climate. Macroeconomic instability can also encourage inefficient behaviour which can stifle inter-firm co-operation and can reduce the willingness of larger firms to outsource inputs or contract services from SMEs.

14. National, regional and/or local SME development strategies must take into account both the direct and indirect impacts of policy on SME development. Policy coherence for SME development includes policies that relate to infrastructure development or to the development of human and managerial resources. In many developing countries there is a growing awareness that

education and vocational training needs to impart entrepreneurship skills, management skills and the promotion of an entrepreneurial culture. By developing the necessary physical infrastructure, knowledge and skills, as well as providing appropriate incentives, the Government can help to promote innovative capacity and structural change in the economy.

15. Many developing countries are currently preoccupied with the need to bring their macroeconomic indicators in line with internationally accepted standards. Various austerity measures, whether related to the transition to a market economy or structural adjustment programmes, create a conflict between the need for budgetary discipline and a smaller public sector and the demands for additional spending on SME development. Several experts mentioned the conflict between macroeconomic and microeconomic requirements with regard to the extension of subsidised credit to SMEs. It is important for these conflicts to be resolved if the objective of national enterprise development is to be achieved. Such conflicts could be resolved by careful policy analysis and policy design. For instance, policies that entail additional expenditure on SME development could be justified by the added tax revenue that would be generated by a flourishing enterprise sector. SME support services can also operate on a cost recovery basis whenever possible.

16. Consistency between national and local government policy is best achieved within an overall framework for SME development. The lack of coordination between government departments and ministries and local governments was illustrated in one country where there are 45 programmes at the federal level and a number of programmes at state and local levels. These programmes are fragmented under three different ministries, two publicly owned banks and several technical agencies. The various ministries and other government agencies are often unaware of each other's programmes, resulting in duplication and unintended rivalry which serves to confuse the intended beneficiaries of these services. Despite the large budgetary resources devoted to these programmes, surveys reveal that many firms are generally dissatisfied with support services and many are not even aware of the existence of these programmes.

17. Similar to the problem of intra-government incoherence and perhaps contributing to it to some degree is the problem of inter-donor incoherence. The subject of enterprise development has stimulated much donor interest. Several national and international organisations (UNIDO, ODA, ILO) expressed the need for more and better cooperation among bilateral and multilateral donors funding SME support programmes and projects. This would ensure complementarity, create synergies and hence avoid duplication of efforts and the waste of limited resources. This applies at both the field and headquarters levels, including in the context of the Donor Committee on Small Enterprise Development.

18. Policy coherence can often be difficult to achieve at the enterprise level. A common problem is the tendency for most support services to be supply-driven. In some instances, the services and the agencies supplying them are irrelevant because SMEs have other priorities. Experts stressed the need for a change in focus from supply-driven services to demand-driven services. To facilitate the implementation of this change in focus, the use of surveys and other methods of assessment and evaluation was encouraged. The supply of services on a cost-recovery basis was also suggested as one method of gauging SME demands. Fiscal stringency which requires SME support service agencies to be self-financing can also act as an incentive for such a change in focus.

19. Domestic SME development strategies and measures can sometimes be inconsistent with external commitments such as those entered into under international agreements. Governments have to be aware that certain types of SME support measures such as subsidized credits could be in conflict with WTO rules. In this context it is necessary to make a distinction between strategies benefiting nascent SMEs and those benefiting mature SMEs which need to export in order to realise their growth potential. Experts expressed concern about adverse effects on the SME sector which can result if trade liberalization is not accompanied by adequate programmes to help strengthen SME capacity to cope with intensified competition and take advantage of export opportunities. The importance of appropriate -- WTO-consistent -- export support services was stressed in this context.

20. The achievement of policy coherence is a process which evolves over time, requiring a step-by-step approach involving a continuous process of evaluation and adjustment. An example can be found in Mauritius, where policy coherence was achieved incrementally over a number of years.

(iii) SME support mechanisms and agencies

21. The establishment of agencies to implement measures for SME support through the provision of start-up, business and entrepreneurship development support programmes, credit and other business-related services continues to be a priority for Governments. There was general agreement among the experts that support agencies should have as their main aim providing and improving business skills of entrepreneurs, so that they can better recognize business opportunities for SMEs and derive more benefit therefrom and also increase their competitiveness. Governments should recognize the importance of infrastructural support and of investment in education and training for enterprise development. The range of business services to which SMEs need access reflects the fact that SMEs must rely on external resources for services which larger firms can provide in-house.

22. The nature of the services required by SMEs must be defined on the basis of the typical characteristics of the SME. Support services can be and in actual practice are provided by both the public and the private sector and can be subsidized or commercialized. The Expert Meeting considered the question of the relative efficiency of different service providers. The determining question was "who could do what best". Experiences indicated that increased public/private-sector partnership and/or cooperation is preferable.

23. Service providers determine the range of services required by SMEs according to the level of economic and business development of a given sector or region. The same indicators determine the price level of the services offered. Often government or donor-funded support agencies find it difficult to establish full or partial cost-sharing practices.

24. Whether business support should be demand- or supply-driven was again discussed in the context of improved support service mechanisms. The consensus was for demand-driven support, leaving room, however, for supply-driven support in situations where enterprises are not aware or informed about existing programmes or the potential benefits that they could derive therefrom.

Major obstacles to SME development

25. The problems of SMEs remain those inherent in their structure and size - which at the same time account for the important flexibility and adaptability in the sector. The fact that small and medium-sized enterprises are "lonely", causing their weak bargaining position and leverage, represents a more important disadvantage than their size.

26. Poor access to capital due to lack of collateral, the absence of information on the availability of funds and programmes, social and cultural barriers hindering entrance to financial markets, etc., were identified by several experts as the major obstacles to SME development, rather than the availability of credit itself. The need for simplification of administrative and regulatory procedures related to credit provision was also pointed to. Reference was made to UNCTAD's earlier work in this area and to the second session of the Ad Hoc Working Group on the Role of Enterprises in Development (August 1995).[1]

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[1] Final report of the Ad Hoc Working Group on the Role of Enterprises in Development, TD/B/42(1)/17- TD/B/WG.7/8.

27. Other key problems for many SMEs are caused by inadequate management skills, especially those required to compete in the present-day globalized economy, lack of client orientation, limited access to relevant information, not being linked to commercial or productive networks and lack of knowledge and resources for incorporating innovation or quality improvement into production processes. An expert reported that a recent Brazilian study of enterprise survival factors had found that the enterprises more likely to survive and thrive were those which were market-oriented and which had links with other organizations and firms.

28. International donors in general, and NGOs in particular, play an important role in the provision of micro-credit and in training and other support services. A major problem is the relatively high operational costs of some donor-funded NGOs. NGO support activities may need to be better coordinated, as duplication and overlapping of activities persist. In LDCs, donor-dependency of business support providers, mostly NGOs, is an issue of major concern.

Experiences with support agencies

29. The role of support agencies differs when services are provided at the local, the regional or the national level. Experiences indicate that government's support agencies are most efficient when organized at the local level, due to the characteristic local nature of the SME and because of the organizational and structural costs of such organizations.

Public/private-sector partnerships

30. A much cited formula, which has successfully been replicated in some developing countries, is Italy's Emilia Romagna model. The model is a good example of successful institutional public/private-sector cooperation involving political, social and economic actors for creating an environment conducive to enterprise development. It relies on an intensive networking process, involving private business networks and social and public networks, including academia.

31. Developing countries attach equal importance to the establishment of business support agencies. Mexico's PROPICE (*Programa de Politica Industrial y Comercio Exterior*) foresees institutional support for productive sectors and is guided by a broad-based advisory council in which key actors from business and civil society, as well as from academia, are represented. Support agencies in South Africa are based on the concept of the "wholesale agency", where government support is channelled through intermediary bodies that deliver the services to the end beneficiaries, i.e. small businesses. Government does not compete with

existing private sector institutions, but plays a complementary role and fosters the creation of institutions where these do not exist.

Institutional organization of the provision of support services

32. Enterprise support agencies can take different institutional and organizational forms, such as foundations (in Paraguay, a foundation handles the execution of the Inter-American Development Bank's micro-credit scheme), associations and cooperatives (especially in the context of granting micro-credit), but also development banks (the Development Bank of Mauritius provides institutional support for industrial development). More recently, development policies have included credit schemes and support programmes for women entrepreneurs. In the Czech Republic also, certain target groups have been identified for special focus within the SME programme, such as young people and the disabled.

33. A distinction can be made between the so-called "real business services" and financial support (such as grants, loans, tax breaks, etc.). In the Emilia Romagna region, the institution named ERVET, with mixed public-private shareholding, provides real business services, basically related to information, R&D, market research, export promotion, technical consultancy, professional training, quality control techniques, etc.. ERVET provides these services either directly or through its wider support network. One of its service centres is ASTER, the Technological Development Agency. ASTER aims at providing systems within which all actors, including enterprises, can innovatively collaborate. Products demonstrate that the system is effective and that SMEs are capable of using new technology.

34. Certain types of indirect support services provided by the private sector are not generally thought of as business support. However, their existence does respond to needs and requirements of SMEs for the successful operation of business. Typical examples are legal and insurance services, leasing, customs handling, etc., often possessed "in-house" by large enterprises but too costly for SMEs.

35. Institutional services can also be provided by business associations, either as a social service or for the expansion of their membership (as was, for example, done by Mauritius' association of employers).

36. Governments can also outsource or subcontract support activities (to agencies like Turin's CODEX, for example). The private sector, including large enterprises, may also have an interest in creating programmes in the context of the development of their future markets and in practice has been willing to invest therein (banks, telecommunications services) in developed, developing and least developed countries.

37. Several countries in transition have established enterprise or business support institutions, ranging from start-up services to credit and loan guarantee funds, technological centres, business incubators, education and training institutions, chambers of commerce and networking organizations, as well support mechanisms for participation in trade fairs.

38. In the Russian Federation, institutions are based on laws drafted in close cooperation with enterprise representatives. Three main types of credit funds have been established in the Russian Federation, namely (i) those co-financed by national and international private investors, (ii) federally funded schemes and (iii) micro-credit schemes. The latter serve a dual financial and social purpose.

39. Some countries, such as the Russian Federation and Croatia, have established consulting firm networks. Such networks replace institutional support mechanisms, but are less costly and time-intensive to set up, while accomplishing the same goals.

40. In the recently established SME support structure of the Czech Republic, schemes have been developed to address national, regional and local needs for financial and non-financial business support and for cooperation with donor agencies.

41. Experts drew attention to instances when Governments have started up the process for SME development support on a large scale, only to discover at some point in time that during a budget crisis these very support services have to be sacrificed. In funding support agencies, caution is therefore warranted. However, in some cases support agencies have been able to survive sharp decreases in government support by increasing their focus on client demand and recovering more of their costs by adjusting their charges for services.

42. Government-funding of SME support agencies can produce contradictory results. While on the one hand government funding removes the need to become self-supporting and can distort the services offered, on the other hand it gives the flexibility to provide support services whose value and importance may not be evident at first to entrepreneurs who have not experienced them.

Efficient supply of support services: redefinition of the role of the state

43. Evaluation of experiences in countries with institutional SME support schemes dating back, in some instances, to the 1960s indicates that output and outreach have been limited, insufficient and costly. Questions raised as to "who can do what best" for end beneficiaries have led to a reassessment of the role of the state in the direct provision of such services.

44. The policy now generally espoused, including by the Committee of Donor Agencies for Small Enterprise Development, is for a fresh approach to SME support based on the principles of subsidiarity, sustainability, demand-side orientation and targeted services. This new approach includes outsourcing of institutional support services and places emphasis on the provision of localised services.

Demand- and supply-driven business support services

45. Should business support programmes be supply- or demand-driven? Ideally, they should be the outcome of close cooperation with the private sector, reflecting the actual needs of small and medium-sized enterprises. There are, however, differing views. Some hold that enterprises know their own needs best. Others consider that emerging entrepreneurs may have neither the time nor the resources to identify their business support needs. In Mauritius, the latter proposition has been proven correct. This was tested by introducing an initial package of free services, followed by continued services for which enterprises then had to pay.

Pricing of services

46. The perceived ignorance of own needs complicates the setting of market prices for services provided by support agencies. Approaches advocated are the introduction of the concept of cost-sharing, whereby clients are charged nominal fees, or costing policies, whereby core services remain free but charges are levied for the provision of supporting goods and services, so as to allow enterprises to judge the relevance of various services themselves.

47. Other support agencies, such as SEBRAE of Brazil, apply flexible criteria for adjusting fees based on the general economic situation of the region, the level of development of the region's enterprise sector, and its product base and diversity.

Marketing, information and communication

48. Surveys conducted indicate that entrepreneurs are often not aware of the contents or existence of business support programmes. This signifies a failure of service providers to market their products. Marketing of services generally includes the dissemination of information. The use of conventional communication tools and modern communication techniques (e.g. the use of the Internet by business support agencies) in this area has hitherto been limited, with most activities of this nature occurring in developed countries and only sporadically in developing countries (for example, the mobilization of the media for SME activities in Mauritius).

49. Overall, communication within the public administration has been found to be sub-optimal. Often, one part of the administration is not aware of what is happening in other parts of that same administration. There are, however, some exceptions. The Czech Republic, for example, takes a multi-ministerial approach towards enterprise development, thus ensuring inter-administrative communication.

50. The point was raised that awareness of the importance of small and medium-sized enterprises to the economy may well be better understood at the international than at the national or regional levels and that this situation needs to be redressed.

51. In some countries in transition, there is still need to change the public's conceptions of business and entrepreneurship, which linger from the past.

Impact assessment

52. Research on the impact of support agencies is generally implemented after activities have been undertaken. The use of appraisal research at the policy formulation and planning stages seems to be rather rare. Experts felt this omission was disadvantageous. Conducting such appraisal in parallel with the activities may prove useful in spotting trends and correcting or adjusting policies. In Croatia a needs assessment study had been undertaken to inform development of SME innovation policies. Exchange of experiences among countries on methodology and tools for conducting surveys was recommended.

Promotion of inter-firm cooperation

53. Governments can promote inter-firm cooperation. In some developing countries, such as South Africa, and developed countries such as Denmark and the United Kingdom, grant assistance is provided to associations or groupings of enterprises as a means of fostering cooperation and SME networks. In South Africa, a special fund exists to promote inter-firm cooperation.

(iv) The role of professional associations

54. Experiences from many countries have illustrated the importance of the role of professional associations in a variety of areas which are critical for the SME sector. Professional associations can be efficient providers of specialised support services, as well as acting as an effective lobby for SME interests. The greater ability of professional associations to provide services which are better matched to SME needs was also identified as a potential advantage. Moreover, it was suggested that the degree of government intervention should diminish with the development of the private support sector. Larger companies might also provide professional services to SMEs as a result of the division of labour in production processes. Experience shows that the development of subcontracting arrangements between large firms and SMEs can give an incentive for large firms to provide financial, technical and other assistance to SMEs.

55. It was observed that in some cases SMEs' expressed "wants" are not always what they actually require to develop and grow. A more general problem is that SMEs may not have the time or resources to properly identify their needs or find solutions to their problems. Governments can assist by initiating research on SME needs and best practice to address some of their specific problems, including providing financial support for independent research in the area of SME development.

56. The experts emphasised the need to develop a culture of cooperation and collaboration between government and professional associations. For example, in Turin, Italy, CODEX has been successful in ensuring increased resources, better targeting and the sustainability of SME support services by developing partnerships between local government and the private sector.

57. The necessity for SMEs to form their own associations to participate effectively in meaningful dialogue with Government was discussed from different perspectives, with suggestions being made, *inter alia*, to form sector-, product- or industry-specific associations. Experts stressed that this is a critical condition for the development of the SME sector. A potential disadvantage of the

creation of multiple SME associations was, however, that it could result in a fragmented network of SME organisations that did not speak with one voice. In such a situation, there is the risk that the SME sector's bargaining position would be weakened. The lack of resources resulting from limited membership in specialised SME associations is an additional disadvantage. An alternative is the membership of SMEs in an umbrella body representing business as a whole, with the creation of an SME Committee to articulate SME interest. Hungary provides an example of such a structure having been developed.

58. It is very important that associations offering support services to SMEs be dynamic and responsive to changing SME needs and changes in the environment in which SMEs operate. It is necessary for support service providers to develop mechanisms with which to regularly evaluate their service delivery in terms of appropriateness, relevance and effectiveness. The experience of SEBRAE in Brazil is an example of a professional institution which keeps itself informed of its clients' needs and the effectiveness of its service delivery. For example, the introduction by SEBRAE of "virtual schooling" shows its ability to adapt its services in the light of the constraints faced by its female clients.

III. ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

1. In accordance with the agreed conclusions adopted by the Commission on Enterprise, Business Facilitation and Development at the closing meeting of its first session on 24 January 1997, [2] the Expert Meeting on Goverment and Private Sector Roles and Interactions in SME Development was held at the Palais des Nations, Geneva, from 23 to 25 July 1997. The Meeting was opened on 23 July 1997 by Mr. Rubens Ricupero, Secretary-General of UNCTAD.

B. Election of officers

(Agenda item 1)

2. At its opening meeting, the Expert Meeting elected the following offiicers to serve on its Bureau:

Chairman:	Ms. H. Booth di Giovanni (United Kingdom)
Vice-Chairman-cum-Rapporteur:	Mr. M. Awni (Egypt)

C. Adoption of the agenda

3. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in TD/B/COM.3/EM.2/1. Accordingly, the agenda for the Meeting was as follows:

1. Election of officers

2. Adoption of the agenda

3. The respective roles of government and the private sector, including NGOs, and the interactions between them in creating a coherent policy framework and setting up effective support measures and structures for the development of SMEs and micro-enterprises, in particular those in least developed countries.

4. Adoption of the report

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[2] See Report of the Commission on Enterprise, Business Facilitation and Development on its first session (TD/B/44/2-TD/B/COM.3/4), annex I, paras. 3-4.

D. Documentation

4. For its consideration of the substantive agenda item (item 3), the Expert Meeting had before it an issues paper by the UNCTAD secretariat entitled "Government-private sector interaction, with a particular focus on the participation of SMEs" (TD/B/COM.3/EM.2/2).

E. Adoption of the report

5. At its closing meeting, on 25 July 1997, the Expert Meeting adopted its draft recommendations (see section I above), agreed to incorporate the Chairman's summary into its report (see section II above), and authorized the Rapporteur to prepare the final report of the Meeting, under the authority of the Chairman.

Annex

ATTENDANCE a/

1. Experts from the following States members of UNCTAD attended the meeting:

Algeria
Andorra
Australia
Brazil
Cape Verde
Central African Republic
China
Colombia
Costa Rica
Côte d'Ivoire
Croatia
Cuba
Czeck Republic
Democratic Republic of the Congo
Dominica
Dominican Republic
Ecuador
Egypt
Ethiopia
Finland
Germany
Honduras
Hungary
India
Iran (Islamic Republic of)
Israel
Italy
Japan
Jordan
Kenya
Luxembourg
Madagascar
Mali
Malta
Mexico
Morocco
Myanmar
Nigeria
Pakistan
Paraguay
Peru
Philippines
Poland
Republic of Korea
Romania
Russian Federation
Senegal
Slovakia
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Syrian Arab Republic
Thailand
Trinidad and Tobago
Tunisia
Turkey
Uganda
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
Uruguay
Venezuela
Zambia

2. The Economic Commission for Europe, the Economic Commission for Africa, and the United Nations Institute for Training and Research were represented at the meeting. The International Trade Centre UNCTAD/WTO was also reprented at the meeting.

3. The following specialized agencies were represented at the meeting:

International Labour Organization
International Monetary Fund
United Nations Industrial Development Organization

4. The following intergovernmental organizations were represented at the meeting:

Inter-American Development Bank
European Community

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a/ For the list participants, see TD/B/COM.3/EM.2/INF.1.

5. The following non-governmental organizations were represented at the meeting:

General Category

Ibero-American Association of Chambers of Commerce
International Chamber of Commerce
World Association of Small and Medium Enterprises
World Federation of United Nations Associations
World Vision International

PANELLISTS

Mr. Mahesh Kumar Agrawal, President, Nepal Chamber of Commerce
Mr. Gabriel Casaburi, Social Researcher, Faculty of Latin American Social Sciences (FLACSO), Argentina
Mr. Azad Jeetun, Director, Mauritius Employers' Federation, Mauritius
Mr. Hussein Kiaratu, Head, Advisory Group on SMEs, Confederation of Tanzanian Industries, United Republic of Tanzania
Mr. Jiri Navratil, Deputy Director of Business Promotion, Ministry of Industry and Trade, Czech Republic
Mr. S. Phillips, Senior Development Manager, International Development Consortium, United Kingdom
Ms. Claudia Vaconcellos Vae, Manager of Planning, Brazilian Agency for the Support of the Small and Medium Companies (SEBRAE), Brazil